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THE INTEREST CONTROVERSY.

Never before have economic questions engaged public attention as earnestly as they do now. Even among business men and employers an active interest is manifest; but the greater part of their time being claimed by their business, they can hardly more than follow the discussions of those who specifically devote their time to the study of economics. In this they are, however, often discouraged by the obscurity of the language used. This is especially true regarding the controversy on the cause of interest.

The works of Böhm-Bawerk are justly considered an epoch-making contribution to this question; and in his critique he certainly advances formidable arguments in refutation of former doctrines. But even his theory does not appear to give satisfaction, judging from the spirited controversy that has followed its publication. And it is one of the controverting arguments to which I here desire to call attention.

Although I have paid some attention to economic questions, it was impossible for me to understand the argument of Professor Giddings as presented in his contribution on "The Growth of Capital and the Cause of Interest." In his concluding sentence he says, "The value of means of production, therefore, normally lags behind the value of finished products." I have read and reread this sentence, but fail to discover its meaning. The professor can certainly not mean that one hundred dollars' worth of means of production is worth less than one hundred dollars' worth of finished products, for this would be absurd. Nor does it seem reasonable to interpret this statement as meaning that, if equal efforts were applied to the production of auxiliaries on the one hand and of finished products on the other, the former would be less valuable than the latter. Such a statement would be puzzling to the man of business who knows that, were it a fact, competition in the manufacture of finished products would soon be increased at the expense of that prevailing in the manufacture of auxiliaries, until the comparative overproduction of the one

over the other would equalize the alleged difference. Besides, this view does not harmonize with the assertion that "capital has the abnormal costliness inherent in protracted or intensified labor." The universal experience is that an increase in the costliness has a tendency to increase rather than to diminish the value of a product of manufacture. Moreover, it is observed that in no case is the production of auxiliaries reserved for the last hours of the day, but that, on the contrary, the distribution is indiscriminate, and that the alleged increased costliness of the "hours of diminishing return" must, for this reason, be borne uniformly by all kinds of products. The statement of the professor evidently cannot refer to any disproportion existing between the value of the products and the intensity of the efforts exerted in their production. What, then, does it mean?

Interest on invested capital accrues to the business man in the form of an excess of the market value of his products over the cost of their production, the latter including the market value of his own personal services. And general experience shows that, whenever practically no time elapses between the first effort and the completion, the value of the product corresponds very closely with the value of the labor applied and the raw material consumed. An excess appears only when a long period of time unavoidably intervenes between the efforts and the completion, as if machines, buildings, and other auxiliaries are used, the labor of producing which gradually enters, as it were, into the commodities produced by their aid at the rate of their deterioration; or if the process is time-consuming, as when fruit-trees are raised or lumber is seasoned, etc. This excess is clearly a matter of time, and is independent of the use of auxiliaries or the complexity of the process. No interest of any account is found to accrue from the use of transient auxiliaries, such as the sand moulds of a foundery, the usefulness of which is exhausted generally on the day on which they are made; while an unavoidable delay in production without auxiliaries is remunerated by interest on the capital invested, in proportion to the time during which the materialized labor remains unable to directly minister to human wants. And it is significant that this excess becomes the prop-

erty of the owner of the capital, and not of those who bear the burden of the hours of diminishing return, since neither the workman who performs the more laborious work, nor the employer who pays full wages for the inefficient labor of those hours, reaps any benefit from this excess.

Any theory of interest that cannot account for all phases of this peculiar economic phenomenon cannot claim any recognition on the part of the business world; and it is difficult to see how the doctrine of the hours of diminishing return can furnish a cogent explanation. Recourse need be had to those hours only while capital is being accumulated; but, when once acquired, the hours of labor, including those required for the replacement of the consumed capital, are even reduced below those previously needed for the production of finished products. If these hours ever had the effect of causing a profit to accrue to capital, this effect must have disappeared long ago, — in fact, long before the industrial phenomenon known as overproduction or business stagnation was for the first time observed, since the theory under consideration is absolutely incompatible with this phenomenon.

HUGO BILGRAM.

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